

CITY OF BALTIMORE

LOAN AND GUARANTEE PROGRAM

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED

JUNE 30, 2001

(WITH INDEPENDENT AUDITORS' REPORT)

CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM
FINANCIAL STATEMENTS
JUNE 30, 2001

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CITY OF BALTIMORE
MARTIN O'MALLEY
Mayor

DEPARTMENT OF AUDITS
Room 321, City Hall
Baltimore, Maryland 21202

ERNST & YOUNG

One North Charles
Baltimore, Maryland 21201

Report of Independent Auditors

December 12, 2001

The Mayor, City Council, Comptroller and
Board of Estimates of the City of Baltimore, Maryland

We have jointly audited the accompanying balance sheet of the Loan and Guarantee Program, an enterprise fund of the City of Baltimore, Maryland as of June 30, 2001, and the related statements of revenues, expenses and changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the City of Baltimore, Maryland's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Loan and Guarantee Program of the City of Baltimore, Maryland, and are not intended to present fairly the financial position of the City of Baltimore, Maryland, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Loan and Guarantee Program of the City of Baltimore, Maryland, as of June 30, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Yovonda D. Brooks, CPA
City Auditor
Department of Audits

Ernst & Young LLP

CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM
BALANCE SHEET
June 30, 2001
(Expressed in Thousands)

ASSETS

Cash and cash equivalents.....	\$ 16,997
Investments.....	439
Accounts receivable, net.....	168
Notes receivable (net of allowance of \$46,220).....	<u>3,311</u>
 Total assets.....	 <u>\$ 20,915</u>

LIABILITIES AND EQUITY

Liabilities:

Accounts payable.....	\$ 2
Notes payable.....	178
Due to Other Funds.....	1,803
Other Liabilities-primarily reserves for losses on guarantees	<u>5,611</u>
 Total liabilities.....	 <u>7,594</u>

Equity:

Contributed capital.....	49,603
Accumulated deficit.....	<u>(36,282)</u>
 Total equity.....	 <u>13,321</u>
 Total liabilities and equity.....	 <u>\$ 20,915</u>

See notes to financial statements.

CITY OF BALTIMORE
 LOAN AND GUARANTEE PROGRAM
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN EQUITY
 FOR THE YEAR ENDED JUNE 30, 2001
 (Expressed in Thousands)

Operating revenues:

Rents, fees and other income.....	\$ 313
Interest and investment income.....	<u>1,143</u>
Total operating revenues.....	<u>1,456</u>

Operating expenses:

Salaries, wages and other personnel costs.....	138
Other program expenses.....	<u>2,932</u>
Total operating expenses.....	<u>3,070</u>

Operating Loss.....	(1,614)
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Accumulated deficit - beginning of year.....	<u>(34,668)</u>
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Accumulated deficit - end of year.....	<u>(36,282)</u>
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Contributed capital - beginning of year.....	50,056
Transfers to City of Baltimore.....	<u>(453)</u>

Contributed capital - end of year.....	<u>49,603</u>
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Total equity - end of year.....	<u><u>\$ 13,321</u></u>
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See notes to financial statements.

CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

Cash flows from operating activities:	
Operating loss.....	(\$1,614)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Increase in accounts receivable.....	(1)
Decrease in other assets.....	247
Decrease in deferred revenue.....	(20)
Increase in accounts payable.....	2
Increase in due to other funds.....	1,803
Decrease in other liabilities.....	(209)
Decrease in accrued interest payable.....	<u>(82)</u>
 Net cash provided by operating activities.....	 <u>126</u>
Cash flows from non-capital and related financing activities:	
Decrease in notes receivable.....	444
Transfer of capital contributions.....	(453)
Decrease in notes payable.....	<u>(50)</u>
 Net cash used by non-capital and related financing activities.....	 <u>(59)</u>
Cash used by investing activities-	
Purchase of investment securities.....	<u>(42)</u>
 Net increase in cash and cash equivalents.....	 25
Cash and cash equivalents, beginning of year.....	<u>16,972</u>
 Cash and cash equivalents, end of year.....	 <u><u>\$ 16,997</u></u>

See notes to financial statements.

CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM
NOTES TO FINANCIAL STATEMENTS

1. Description of the Program:

The Loan and Guarantee Program, an enterprise fund of the City of Baltimore (the Program), was created by resolution of the Board of Estimates of the City of Baltimore pursuant to four separate trust agreements. As of July 1, 1986, the Board of Estimates dissolved the then existing trust agreements and placed responsibility for the continuing management of the Program with the Director of Finance of the City of Baltimore (City).

In general terms, this Program provides for utilization of proceeds from certain bond issues, grants, donations and contributions appropriated by the City and also certain funds included in the capital portion of the annual Ordinance of Estimates. Such funds are used for direct loans or for guarantees for loans made by third parties for residential, commercial and industrial rehabilitation and development or for the construction of certain capital projects.

The major objectives of the Program are the expansion of the tax base and achievement of certain employment objectives of the City. The Program supports projects, which are consistent with the master plan for City development, and provides funds only when necessary financing is not forthcoming from private lenders.

These financial statements relate only to the operations of the Program and are not intended to present the financial position of the City and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust fund in conformity with accounting principles generally accepted in the United States. Since the Program is designed to self-liquidate, the City does not have any plans to fund the accumulated deficit in retained earnings.

2. Summary of Significant Accounting Policies:

The accounting and financial reporting policies of the Program conform to accounting principles generally accepted in the United States (GAAP) and reporting standards as promulgated by the Governmental Accounting Standards Board (GASB) for proprietary funds.

GAAP allows governments to choose either not to implement, in proprietary fund types, pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, unless those pronouncements are specifically adopted by GASB (provided that this is applied on a consistent basis) or to continue to follow FASB standards for these fund types. The Program has elected not to implement FASB pronouncements issued after that date for its proprietary fund types.

Basis of Accounting:

The financial statements have been prepared on the accrual basis of accounting whereby revenues are recorded at the time they are earned and expenses are recorded when incurred.

Cash and Cash Equivalents:

Cash and cash equivalents include amounts in demand deposits, as well as short-term investments with a maturity date within three months of the date acquired by the City.

Investments:

Investments, which consist of certificates of deposit, are stated at cost.

Notes and Loan Guarantees:

The Program provides for losses on notes and accrued interest receivable when, in management's judgment, it is probable that the outstanding principal or accrued interest will not be repaid in accordance with the terms of the loan and the borrower or the collateral will be unable to otherwise fully satisfy the obligation. For loans funded with federal grants, estimated losses on loans receivable are recorded as bad debts and then transferred as a reduction of contributed capital. Many loans contain provisions for the accrual of current interest and payment thereof in future periods when collateralized property produces sufficient cash flow. The Program accrues interest income in accordance with the terms of the loan contracts. Interest accruals are suspended when payments of interest or principal are not being made in accordance with contract requirements or when, in management's judgment, a loss is expected on the loan. A provision for loss on loan guarantees is recognized when, in management's judgment, a loss is expected.

3. Cash Deposits and Investments:

The Program participates in the City's pooled cash account. At June 30, 2001, the Program's share of the City's pooled cash account was \$16,997,000. All of the City's cash deposits are either covered by Federal Deposit Insurance (FDIC) or collateralized by securities held in the name of the City by the City's agent.

The Program is authorized by State law to invest in direct or indirect obligations of the U.S. government, certificates of deposit and repurchase agreements. City policy requires that securities underlying repurchase agreements must have a market value of at least 100% of the cost of the repurchase agreement and that the City takes possession of the securities when the repurchase agreement's maturity is over five days. Management believes the City has complied with this policy throughout the year.

At June 30, 2001, the Program had bank balances in the form of non-negotiable certificates of deposit, with a carrying value of \$439,000, which is reported as investments. The Federal Deposit Insurance Corporation (FDIC) insured \$125,000 of the certificates held at June 30, 2001. The remaining \$314,000 was collateralized by accounts held by the City's agent but not in the name of the City.

4. Notes Receivable:

Notes receivable outstanding at June 30, 2001 was collateralized by mortgages and deeds of trust. These notes bear interest at rates ranging from 1% to prime plus 6% and mature over the next 40 years. At June 30, 2001, the prime rate of interest was 6.5%. Many low interest rate loans are made with Federal funds specifically earmarked for these purposes.

5. Contingencies:

As of June 30, 2001, the Program is contingently liable for insured and guaranteed loans totaling \$1,048,000.

6. Capital Contributions:

Contributions to capital represent federal grant monies received for the purpose of economic development loans.

Decreases in contributed capital resulted from the transfer of the write-off of the uncollectible federally funded loans and the transfer of principal payments received on federally funded loans to one of the City's special revenue funds.